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CANADIAN
MARCONI
COMPANY

ANNUAL REPORT
1979

Financial Highlights

(in thousands of dollars, except as otherwise stated)

	Year ended March 31				
	1979	1978	1977	1976	1975
Sales and other revenues	\$84 223	\$57 252	\$58 325	\$58 288	\$50 827
Net income	7 603	4 184	2 068	4 005	3 350
Dividends	1 575	1 263	1 189	1 189	891
Shareholders' equity	50 001	43 973	41 052	40 173	37 027
Funds (Working Capital)	47 823	42 977	40 815	40 134	37 033
Number of shares (in thousands)	5 943	5 943	5 943	5 943	5 943
Per share data (in dollars)					
Net income	1.28	0.70	0.35	0.67	0.56
Dividends	0.265	0.2125	0.20	0.20	0.15
Shareholders' equity	8.41	7.40	6.91	6.76	6.23

Directors' Report to Shareholders

Directors

R.O. Beauchemin
Senior Partner
Beauchemin-Beaton-Lapointe Inc.
Montreal, Canada

*S. Dobb, F.C.A.
Assistant Managing Director
GEC-Marconi Electronics Ltd.
London, England

*T.S. Dobson
Chairman
Easton United Securities Limited
Calgary, Canada

E.O. Herzfeld
Vice Chairman, Canadian Marconi Company
Associate Director
The General Electric Company Limited
London, England

**H.J. Lang
Chairman of the Board
Canron Inc.
Toronto, Canada

J.E. Pateman, C.B.E., M.I.E.E.
Managing Director
Marconi Avionics Ltd.
London, England

I.D. Sinclair, Q.C.
Chairman and Chief Executive Officer
Canadian Pacific Limited
Montreal, Canada

Sir Robert Telford, C.B.E., F. Eng.
Director
The General Electric Company Limited
Managing Director
GEC-Marconi Electronics Ltd.
London, England

R.J. Williams
President and Chief Executive Officer
Canadian Marconi Company
Montreal, Canada

**Chairman Audit Committee

*Member Audit Committee

Officers

E.O. Herzfeld
Vice Chairman

R.J. Williams
President and Chief Executive Officer

W. Baillie
Senior Vice President, and
Manager, Products and Markets

P.E. Wheatley
Senior Vice President, and
Chief Financial Officer and Treasurer

D.A. Beggs
Vice President and Comptroller

J.W. Dodds, PhD
Vice President, Special Services Division

C. Filiatrault
Vice President, General Counsel and Secretary

G. Gorfinkel
Vice President, Marine and Land
Communications Division

J.A. Howlett
Vice President, Organization and Personnel

J. Simons
Vice President, Avionics Division

Registered Office

2442 Trenton Avenue
Montreal, Canada H3P 1Y9
Telephone: (514) 341-7630

Registrar

Montreal Trust Company
Montreal, Canada

Transfer Agent

Canada Permanent Trust Company
600 Dorchester Boulevard West
Montreal, Canada H3B 1N6

Auditors

Price Waterhouse & Co.
Montreal, Canada

Results and Outlook

In the year under review, sales and revenues reached a record level of over \$84 million, compared with \$57 million in the previous year, and net income rose to \$7,603,000 or \$1.28 per share, compared with \$4,184,000 or 70 cents per share. New orders more than kept pace with the increasing sales, and at the end of the fiscal year, order backlog stood at about \$85 million, compared with \$70 million a year earlier.

All four of our operating divisions contributed to the improvement in sales, which continue to derive predominantly from export markets. In this, we benefitted from the lower value of the Canadian dollar which has prevailed in the past year, and which gave us a better competitive position internationally.

The satisfactory rate of order intake reinforces our confidence that in the new fiscal year, which is already off to a strong start, we should expect revenues and earnings to make further gains.

Products and Operations

A particularly encouraging trend in the past year has been a greater diversification of activities, customers and products. This also has the effect of making us less dependent in future on an extended order backlog as the proportion of sales for short-cycle delivery increases.

Our Omega navigation systems are now in use by or on order from a number of the world's leading international airlines. Important orders have been received for satellite position fixing systems from Indonesia, Malaysia and the People's Republic of China. Considerable growth has occurred in the Company's sales of sophisticated electronic components, primarily multi-layer printed wiring boards and hybrid microcircuits, and this has necessitated an expansion of our component manufacturing facility.

In order to prepare new products for the longer term, the Company is engaged in several major research and development projects. These include the development of airborne navigation systems based on the use of satellites and also the design of an advanced naval radar system. In addition, the Company has recently been licensed by the Canadian Government to manufacture and market an analytical stereoplotter for aerial mapping, which was originally designed by the National Research Council.

To help us attract and accommodate the work force of engineers and specialized technical staff needed for these programs, the Company has established a new research and development facility in Ottawa to complement our operations in Montreal.

The Annual General Meeting of Shareholders will be held at the Corporation's Registered Office in the City of Montreal, 380 Aberdare Road entrance, on Thursday, August 9, 1979 at 11:00 o'clock.

Pour obtenir une copie française de notre rapport annuel, prière d'adresser votre demande au Secrétaire de la Société.

Sunair Electronics, Inc.

In November, the Company entered into negotiations to acquire Sunair Electronics, Inc. of Fort Lauderdale, Florida, a manufacturer of airborne and ground-based communications equipment. The transaction would have involved an outlay of approximately U.S. \$22 million. Although agreement had been reached in principle on the terms and conditions of a merger with Sunair, agreement was not obtained on certain safeguards we considered essential, and Sunair management announced on April 26 that they were terminating the negotiations.

Cash and Short-Term Investments

The increased volume of business was financed entirely from the year's retained earnings, and cash and short-term investments had increased at the year end to over \$37 million. Now that the acquisition of Sunair Electronics, Inc. has been abandoned, we are again actively investigating other investment opportunities.

Dividends

Shareholders will recall that our semi-annual dividend was pegged by legislation for a period of three years in the range of 10 to 11.5 cents. After this restraint expired, in November 1978, your Directors declared a dividend of 15 cents per share. On May 24, 1979, a dividend of 20 cents per share was declared payable on June 18, 1979, to shareholders of record as at June 1, 1979. This marks the sixth increase in the semi-annual dividend rate since payments were resumed in 1972 at the initial rate of 5 cents per share.

Directors and Management

In February, Mr. C.-E. Bélanger retired from the Board. The Directors wish to express their gratitude for his 20 years of outstanding service to the Company. Mr. Bélanger's place on the Board has now been filled by Mr. Roger O. Beauchemin, whose name will be proposed to you for election at the forthcoming Annual General Meeting of the Company. We are pleased to announce that Mr. T.S. Dobson has agreed to take Mr. Bélanger's place on the Audit Committee.

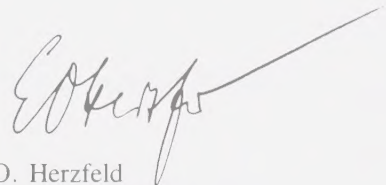
In November, Mr. Claude Filiatrault was appointed a Vice President, while retaining his position as General Counsel and Secretary of the Company.

Vice Admiral D.A. Collins, who had been Vice President, Special Services Division, resigned in January to accept a senior appointment with the North Atlantic Treaty Organization in Brussels, and was replaced in February by Dr. J.W. Dodds,

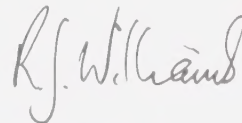
formerly Vice President, Telecommunications Division. Telecommunications Division is now under the direction of Mr. Claude St-Arnaud.

Tribute to Staff

The expansion of our business has caused us to increase our total personnel by over 20% in the past year and by approximately one third from the complement of two years ago. The Directors wish to express their appreciation to the 2,000 Company employees for their contribution to the successes of the record year for the Company in 1978/79.



E.O. Herzfeld
Vice Chairman



R.J. Williams
President and Chief Executive Officer

Montreal, May 24, 1979

Consolidated Balance Sheet

	March 31	
	1979	1978
	(in thousands)	
Assets		
Current assets:		
Cash	\$ 353	\$ 891
Short-term investments, at cost, including accrued interest (approximates market)	37 371	32 850
Accounts receivable	14 394	7 365
Owing by associated companies	721	426
Inventories (Note 2)	14 463	14 320
Prepaid expenses	453	350
	<u>67 755</u>	<u>56 202</u>
 Deferred accounts receivable	 <u>—</u>	 <u>68</u>
 Fixed assets, at cost, less accumulated depreciation (Note 3)	 <u>8 240</u>	 <u>7 170</u>
	 <u><u>\$75 995</u></u>	 <u><u>\$63 440</u></u>
 Approved by the Board:		
E.O. Herzfeld, <i>Director</i>		
R.J. Williams, <i>Director</i>		

	March 31	
	1979	1978
Liabilities and Shareholders' Equity	(in thousands)	
Current liabilities:		
Accounts payable and accrued liabilities	\$16 510	\$11 530
Owing to associated companies	214	370
Income taxes	3 208	1 325
	19 932	13 225
Deferred income taxes	1 029	865
Long-term debt (Note 4):		
5 ³ / ₄ % unsecured sinking fund debentures, Series A, due May 1, 1988	3 143	3 225
7% unsecured sinking fund debentures, Series B, due June 1, 1989	1 890	2 152
	5 033	5 377
Shareholders' equity (Note 5):		
Stated capital — 5,943,192 common shares	10 216	5 943
Contributed surplus	—	4 273
Retained earnings	39 785	33 757
	50 001	43 973
	\$75 995	\$63 440



Auditors' Report

To the Shareholders of Canadian Marconi Company:

We have examined the consolidated balance sheet of Canadian Marconi Company as at March 31, 1979 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at March 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, May 15, 1979

Price Waterhouse & Co.
Chartered Accountants

Consolidated Statement of Income

	Year ended March 31	
	1979	1978
	(in thousands)	
Revenue:		
Electronic products	\$81 287	\$54 779
Income from short-term investments	2 936	2 473
	<u>84 223</u>	<u>57 252</u>
Operating costs and expenses:		
Manufacturing, selling and administration	67 156	47 018
Research and development (net of government participation of — \$884,000, 1978 — \$777,000)	2 813	2 105
Grant under Industrial Research and Development Incentives Act	(97)	(300)
Depreciation (Note 3)	1 349	1 237
Interest on long-term debt	331	368
	<u>71 552</u>	<u>50 428</u>
Income before income taxes	12 671	6 824
Provision for income taxes	5 068	2 640
Net income	\$ 7 603	\$ 4 184
Earnings per share	\$ 1.28	\$ 0.70

Consolidated Statement of Retained Earnings

	Year ended March 31	
	1979	1978
	(in thousands)	
Retained earnings, beginning of year	\$33 757	\$30 836
Net income	7 603	4 184
	<u>41 360</u>	<u>35 020</u>
Dividends — 26.50 cents per share (1978 — 21.25 cents per share)	1 575	1 263
Retained earnings, end of year	\$39 785	\$33 757

Consolidated Statement of Changes in Financial Position

	Year ended March 31	
	1979	1978
	(in thousands)	
Funds (working capital) were provided from:		
Operations —		
Net income	\$ 7 603	\$ 4 184
Depreciation	1 349	1 237
Deferred income taxes	164	(19)
	9 116	5 402
Proceeds from sale of fixed assets	219	200
Decrease in deferred accounts receivable	68	94
	9 403	5 696
 Funds (working capital) were applied to:		
Additions to fixed assets	2 638	1 584
Reduction of long-term debt	344	687
Dividends	1 575	1 263
	4 557	3 534
Increase in funds	4 846	2 162
Funds, beginning of year	42 977	40 815
Funds, end of year	<u>\$47 823</u>	<u>\$42 977</u>

Notes to Consolidated Financial Statements — March 31, 1979

1. Summary of accounting policies:

- (a) **Principles of consolidation** — The consolidated financial statements include the accounts of Canadian Marconi Company and those of its subsidiary companies, Marconi Company, Inc. and CMC Electronics, Inc., both of which were non-operating.
- (b) **Translation of foreign currencies** — Current assets and liabilities in foreign currencies are translated into Canadian dollars at rates of exchange in effect as at the balance sheet date. Amounts entering into results of operations are translated at average rates. Exchange profits and losses are included in income.
- (c) **Inventories** — Work in process, raw materials and bought-out components and finished products are valued at the lower of cost and estimated net realizable value. Deductions are made for progress payments received and any losses incurred or expected to be incurred on contracts not completed at the balance sheet date.
- (d) **Research and development expenditure** — Research and development expenditure is charged against income as incurred except where recoverable from current contracts in progress.
- (e) **Fixed assets and depreciation** — Fixed assets are recorded at cost. Depreciation is provided on the straight-line method at rates based on the estimated useful lives of depreciable assets. Fixed assets retired or disposed of are eliminated from the asset and accumulated depreciation accounts. Gains and losses from disposals are included in income.
- (f) **Income taxes** — The Company follows the practice of providing for income taxes based on income included in the financial statements regardless of when such income is subject to payment of taxes under the tax laws.
- (g) **Recognition of revenue** — Sales are normally recognized when products are delivered to customers; however, revenue from major long-term contracts is recorded on the percentage of completion method based on the ratio of the incurred costs to date to the projected total costs of completing the contracts.

2. Inventories:

Inventories comprise —

	1979	1978
	(in thousands)	
Finished products	\$ 5 348	\$ 2 662
Work in process	17 419	13 074
Raw materials and bought-out components	4 084	3 346
	26 851	19 082
Progress payments	(12 388)	(4 762)
	<u>\$14 463</u>	<u>\$14 320</u>

3. Fixed assets:

	Cost	Depreciation	Net	Net
Land	\$ 483	\$ —	\$ 483	\$ 483
Buildings	7 327	3 643	3 684	3 902
Plant, machinery and equipment	4 533	2 109	2 424	1 572
Equipment on rental	3 440	1 791	1 649	1 213
	<u>\$15 783</u>	<u>\$7 543</u>	<u>\$8 240</u>	<u>\$7 170</u>

The estimated useful lives of depreciable assets are as follows:

Buildings	25 to 50 years
Plant, machinery and equipment	up to 10 years
Equipment on rental	up to 4 years
Capital expenditure authorized and committed at March 31, 1979 was \$1,829,000.	

4. Long-term debt:

Sinking fund provisions of the series A and B debentures require payments aggregating \$316,000 in 1979, and \$390,000 annually in the years 1980 to 1983. Debentures have been purchased and surrendered for cancellation in full satisfaction of requirements of the years 1979 to 1982 inclusive, and in partial satisfaction of requirements of the years 1983 and 1984.

5. Shareholders' equity:

A Special General and Annual Meeting of the Shareholders held on August 16, 1978, authorized an application for continuance of the Company under the Canada Business Corporations Act. A certificate of continuance was subsequently issued by the Department of Consumer and Corporate Affairs of Canada, effective September 22, 1978. As a result, the authorized capital of the Company is now an unlimited number of common shares with no par value. The Company's contributed surplus is now included in stated capital.

6. Remuneration of directors and officers:

The remuneration of directors and senior officers amounted to \$609,590 (1978 — \$741,729).

7. Pension plan:

At March 31, 1979 all vested past service benefits in the Company's pension plan were fully funded.

CMC IN EXPORT



The present era of emphasis on export began at Canadian Marconi Company in the early 1960's, with the development of two new products. The Doppler Navigation System, which represented a new approach to the problem of accurate aircraft navigation, was quickly accepted by commercial airlines and military aircraft operators. The tactical radio relay, designed specifically for front line military communications, found immediate acceptance in the U.S. Army and other armies around the world.

These two products alone have accounted for almost \$600 million in export revenue.

During the past two decades, revenue from export sales has represented 85% of the total sale value of the company's manufactured products. In that regard, Telecommunications Division has an outstanding record wherein, apart from a single purchase of military radio relays by the Canadian Forces and sales of commercial radio relay mainly to two provincial utilities, all of its product is

exported, making its export rate 96%. Avionics Division, meanwhile, has a total export rate of 89%. Marine and Land Communications Division, which sells a considerably greater proportion of its manufactured products in Canada, has a total export rate of 52%.

To achieve this very high rate of export, the company depends on two marketing methods, on-the-spot agents and periodic visits by CMC salesmen.

The resident agents are carefully selected to provide prospective clients with the best possible service whether that is merely to establish initial contact with the client, as in most cases, or to play a more complete role as an after-sales service depot, which applies in a few cases. At present there are formally documented agents in 77 countries who, by virtue of multi-national representation in some cases, represent Canadian Marconi Company in 104 countries of the world.

The company must maintain at home base a complete staff of personnel who

are capable of designing systems, ensuring equipment specification compliance, and negotiating final contracts, taking into account differences in language, laws, and customs. These technical experts must be prepared to travel with and assist the company-based salesmen at any time during the selling process. Additionally, the company provides field service technicians to assist the client on a short or long-term basis. The total effort expended by the company in support of export sales entails many millions of travel miles per year and considerable dedication by its personnel.

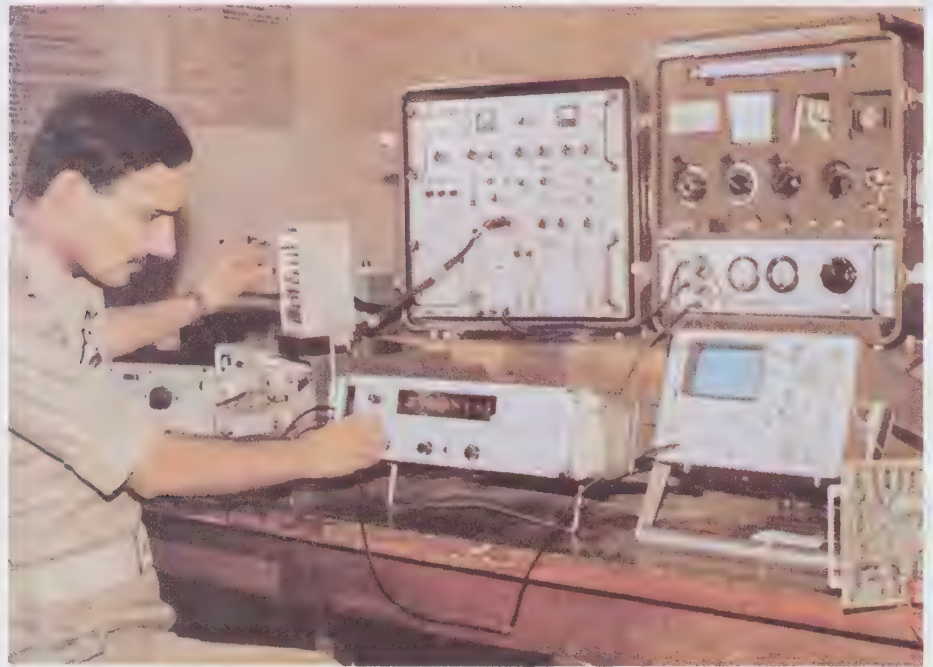
The U.S.A. has been and continues to be CMC's overwhelmingly best customer, absorbing almost 60% of the company's manufactured products, ranging from complex airborne systems to individual electronic components.

Although the map depicts those countries in which agents are situated, Canadian Marconi Company products have been sold in all but a few countries of the world.

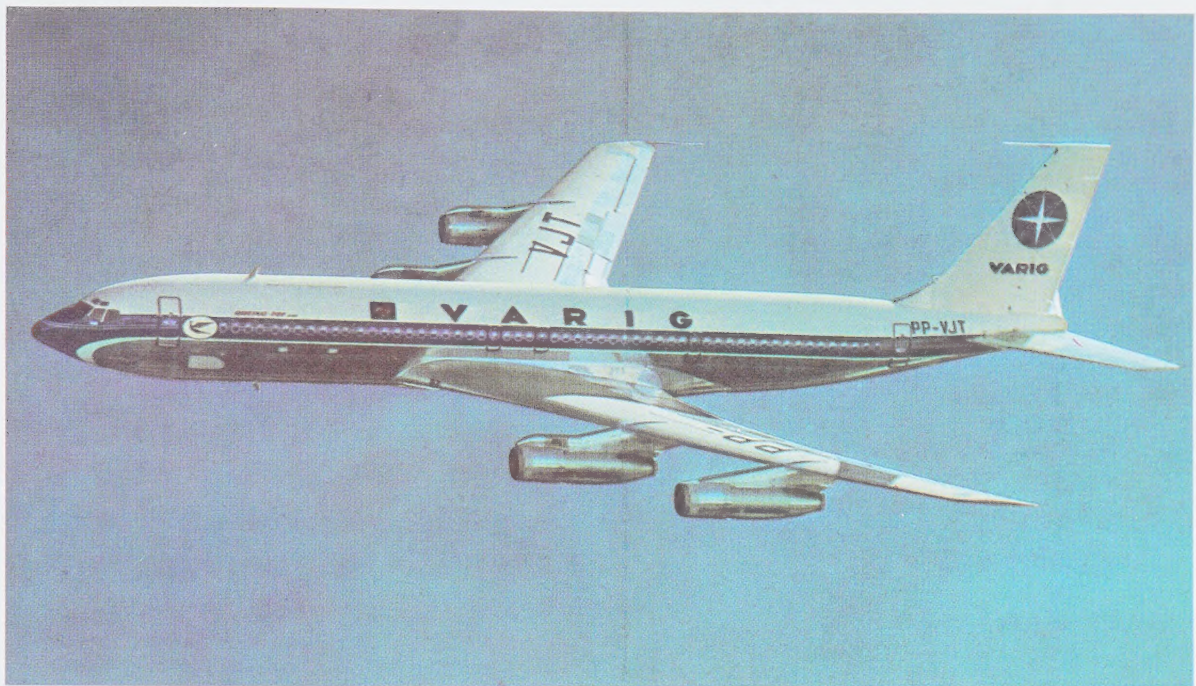


△ The China Ocean Shipping Company uses the 70 Watt CMC RJ68 for harbour control communications in Shanghai and three other major ports of the Peoples' Republic of China.

△ The AN/GRC 103 Tactical Radio Relay and its companion test equipment, the AN/GRM 95, are put through their paces by the Pakistan Army.



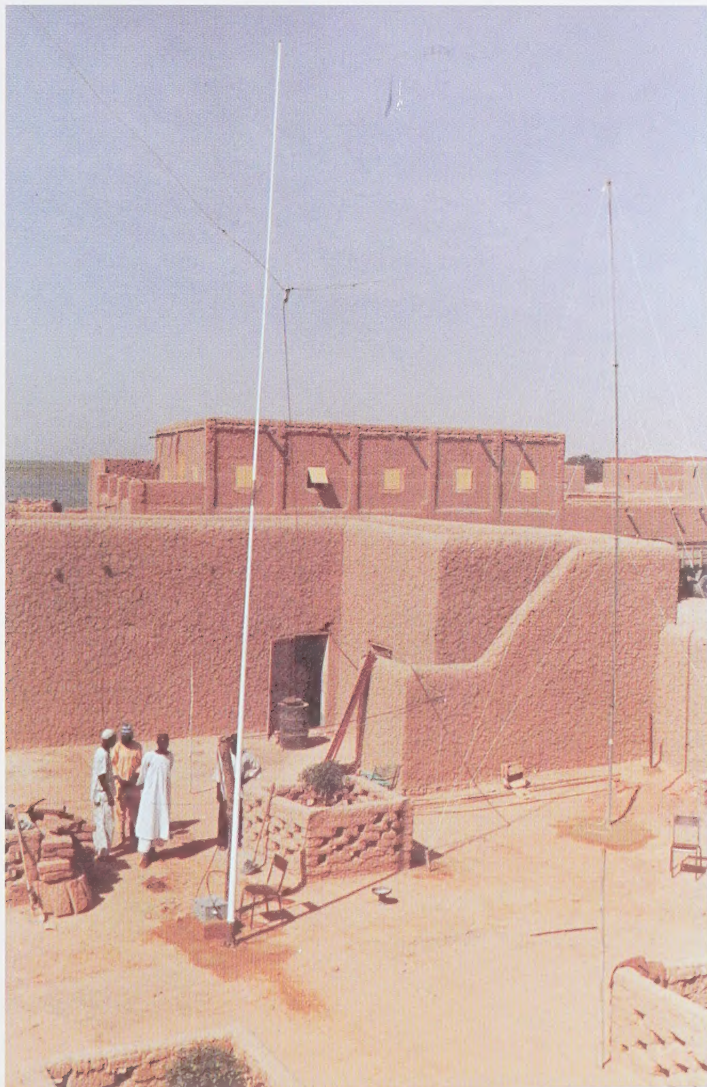
△ The AN/APN 208 Doppler Navigation System operates under flight test conditions in an Agusta Bell Helicopter at an Italian naval base near La Spezia.



The CMC automatic Omega Navigation System performs an important navigation function for the Brazilian national Airline and seventeen other airlines around the world.

The CMC 100 Watt HF/SSB is used for base stations and on riverboats of the Compagnie Malienne de Navigation along the Niger river in Mali.

The AN/SPS 59 marine radar serves its purpose throughout the world as a primary navigation aid for US Navy and US Army ships.





CMC Engine Instruments serve around the world as an integral part of the US Army Black Hawk helicopter and in many other types of military and commercial aircraft.

The CMA-751 Satellite Doppler Survey System is being used in such far-flung locations as Brazil, the true North Pole, and Hungary. It provides geodetic surveyors with accuracies of position to less than 1 metre.



CMC microcircuits and specialized electronic components have increased their export sales to a significant level.

